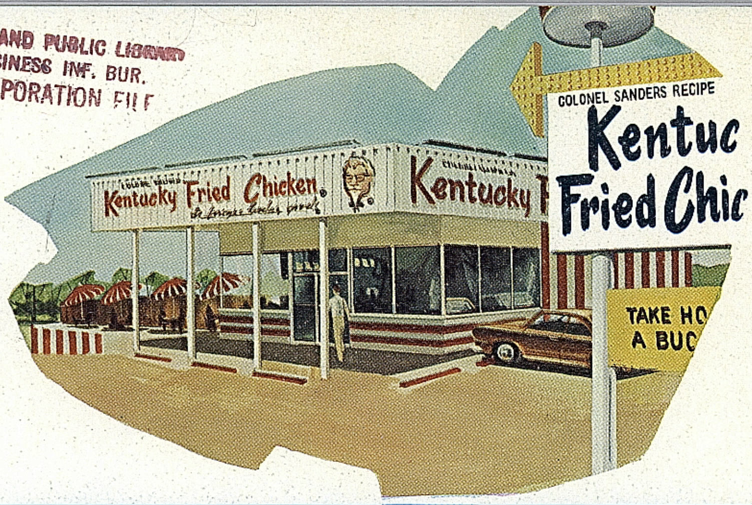
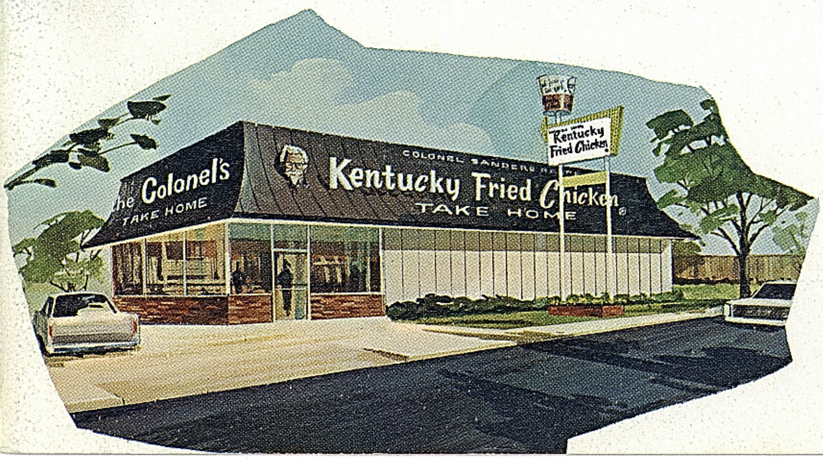


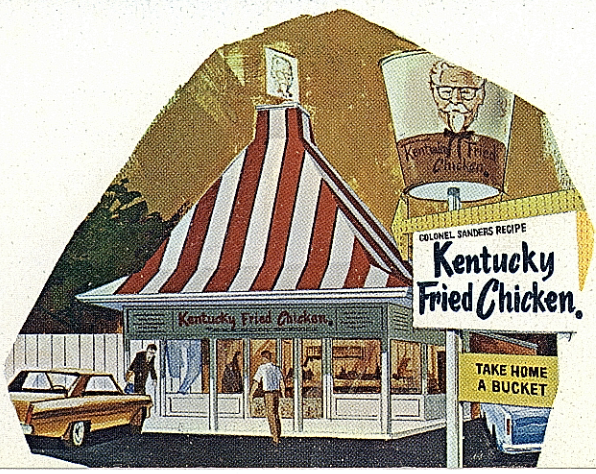
Kentucky Fried Chicken®

CORPORATION

ANNUAL REPORT

FOR YEAR ENDED SEPTEMBER 30, 1966

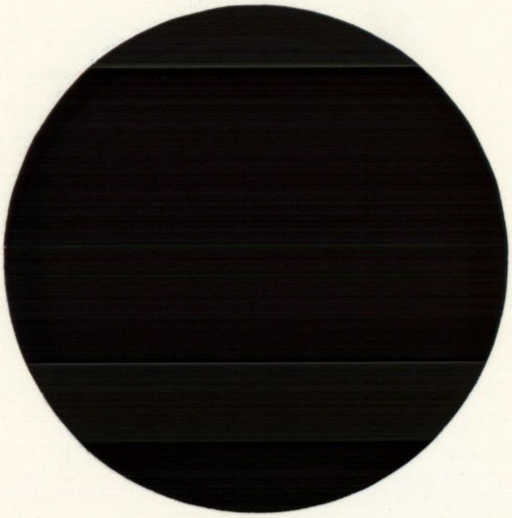




FINANCIAL HIGHLIGHTS

	Year Ended September 30 1966	1965*
Gross income (sales and fees)	$15,044,490	$8,467,853
Profit before taxes on income	3,575,932	1,542,736
Taxes on income	1,781,897	752,386
Net profit	1,794,035	790,350
Net profit per share, based upon the weighted average number of shares outstanding for the year	1.80	.79
Net cash generated from operations — per share of common stock outstanding at end of year	2.09	1.00
Net working capital	1,971,994	1,043,991
Shareowners' equity	3,473,642	1,654,496
Rate of return on shareowners' equity	51.65%	47.77%
Common shares outstanding	1,007,741	1,020,000

*Effect has been given to 2-for-1 stock split in 1966.



About the cover...

A fried chicken fancier traveling coast-to-coast might see all four types of Kentucky Fried Chicken outlets illustrated. The design at upper left is the latest, and all future construction will be styled to this prototype.

Meet the World's No. 1 Chicken Salesman

Col. Harland Sanders, originator of Kentucky Fried Chicken and founder of the corporation known today as the Kentucky Fried Chicken Corporation. A living symbol of his product, the Colonel is featured in a new national advertising campaign for KFC with the theme line, "He fixes Sunday dinner seven days a week."

A Message from Management

JACK C. MASSEY
BOARD CHAIRMAN

JOHN Y. BROWN, JR.
PRESIDENT

Report to Shareowners:

A glance at the Financial Highlights on the inside front cover is all that is needed to confirm that your Company is, indeed, "The world's No. 1 chicken salesman"!

Results for our 1966 fiscal year, which ended September 30, show new all-time records in gross income and earnings, and a continued steady increase in the number and unit sales volume of our franchised retail outlets. Gross income reached $15 million, up more than 77 percent over 1965. Our net after-tax profit increased 127 percent, and net per-share earnings reached $1.80 for the year, up from .79 last year.

The number of franchised outlets increased to a total of 1,200 during the year, and, due to careful site selection and standardization of promotional and operating techniques, the retail sales volume of these newest outlets is far exceeding previous averages. Commitments for new outlets now in effect total 623, with 249 of these scheduled for construction during the 1967 fiscal year.

Your management is proud of these rather remarkable accomplishments. They are a tribute to the more than 12,000 members of the Kentucky Fried Chicken Family, at Company headquarters and in our franchisee organization, and a direct result of their teamwork, ingenuity, and dedication.

The loyalty, co-operation, and deep interest of our franchisees is an asset that does not show up on our balance sheet, but it is one of our most valuable, and most appreciated. We will continue to work to strengthen this unusual relationship during the year ahead, by further expanding our services to our franchisees and offering them every possible aid to the growth in sales volume and profitability of their outlets.

Toward this objective, your Company has expanded its activities in research and product development, and is studying the feasibility of undertaking the manufacture of new products to be sold through our outlets, and of ingredients and supplies used by our franchisees in their operations.

We have also made significant progress in the development of revolutionary new equipment for food preparation and are currently testing prototype pre-fabricated retail buildings which will enable us to take immediate advantage of promising new market opportunities. Both these moves hold the promise of further improved nationwide quality control and better business for the franchisee.

The number of Company-owned retail outlets is being increased, with 10 already in operation and 15 more scheduled for completion during fiscal 1967. A total of 50 such Company-owned-and-operated stores is presently projected. These are proving to be invaluable to us in the carefully controlled testing of new products, processes, and techniques, advertising and promotion, and as a "yardstick" in gauging the effectiveness of overall retail operations.

To keep pace with the accelerating growth of our total income, we have carried out during the past year planned expansion of our engineering department, our advertising and legal staffs, and our research and development department. We have been successful in recruiting several key executives with professional backgrounds in the fields of food preparation and corporate planning and management, and they are already making valuable contributions.

Through a nationwide co-operative plan, we have instituted a substantial national advertising program which is already paying dividends in improved consumer acceptance of our products. This new, unified advertising campaign employs a persuasive presentation of our product story, and virtually every Kentucky Fried Chicken retail outlet is already reporting major increases in sales volume.

Public enthusiasm for the unique flavor and consistent high quality of Kentucky Fried Chicken products seems to be growing steadily, and our consumer research shows that more and more families are getting in the habit of at least one Kentucky Fried Chicken dinner every week. The retail pricing of our products seems to make them immune from local "consumer rebellion" movements. Every new retail outlet is finding a ready market, and travelers are now seeking the standard quality they know they will find in our foods in cities across the United States.

The taste of Kentucky Fried Chicken is proving to have an international appeal as well. The growing number of retail outlets in foreign countries has strengthened our confidence in a world-wide future for our Company, and the export potential is receiving the closest attention of your management.

This past fiscal year has been a period of rapid growth. Your management is pleased that, even with all the growing pains of an organization on the move, we have been able to hold the line on expenses, and to earn a very favorable profit for our shareowners. In fact, expenses increased only 30 percent against a net profit increase of 127 percent.

During the year ahead, management plans to concentrate on building a base for future growth. This will require substantial further investment in product development, research, expansion of facilities, and broadening of the corporate organization. This does not mean any appreciable slowdown in the rate of increase of either gross income or earnings, however. On the contrary, based on results of the fourth quarter and the year-long growth pattern of fiscal 1966, we are projecting total income for fiscal 1967 of $21 million. And, despite the heavier investments required in base-building, we are confident that our per-share earnings for 1967 will improve substantially over our all-time record for this year.

Because of the fine results of fiscal 1966, we will recommend to our board of directors a 20-percent, or one-share-for-five, stock split, subject to the approval of our shareowners at their annual meeting in Nashville on December 6, 1966. This would increase the number of shares available to a market which has been receptive to our stock, and would further broaden the ownership of our Company.

1966 was a good year, yes. And 1967 looks even better. In fact, projections and plans for growth in the next decade and beyond is a subject of the highest priority by the top management of your Company. We have every reason to believe that, while your Company may be a fifteen-million-dollar baby today, a hundred-million-dollar corporation of international scope is achievable by as early as 1972.

Jack C. Massey

JACK C. MASSEY
BOARD CHAIRMAN

John Y. Brown Jr.

JOHN Y. BROWN, JR.
PRESIDENT

Consolidated Balance Sheet

Kentucky Fried Chicken® Corporation and Consolidated Subsidiaries

ASSETS	September 30 1966	1965
CURRENT ASSETS		
Cash	$1,849,904	$ 699,940
Trade notes ($53,790 and $48,408 at September 30, 1966, and September 30, 1965, respectively) and accounts receivable, less allowance for doubtful accounts of $118,091 and $76,799 at September 30, 1966, and September 30, 1965, respectively	2,308,953	1,516,089
Merchandise inventory — at lower of cost (first-in, first-out method) or market	262,643	155,994
Prepayments and other current assets	41,936	17,189
National Cooperative Advertising Program:		
Cash	74,941	24,467
Accounts receivable from members	46,356	36,725
TOTAL CURRENT ASSETS	$4,584,733	$2,450,404
INVESTMENT IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARY — Note A	801,640	—0—
PROPERTY AND EQUIPMENT — on the basis of cost — Note B	704,148	300,662
INTANGIBLE ASSETS — Note D		
Franchises — at cost, less amortization of $476,446 at September 30, 1966, and $291,964 at September 30, 1965	$1,032,513	$1,216,995
Trademarks — at cost, less amortization	23,016	10,527
Unamortized organization expense	665	940
	$1,056,194	$1,228,462
OTHER ASSETS AND DEFERRED CHARGES	39,666	135,381
	$7,186,381	$4,114,909

See notes to financial statements.

Across the country and around the world with Kentucky Fried Chicken®

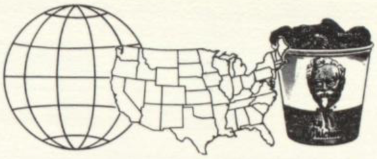
LIABILITIES, CAPITAL STOCK, AND SURPLUS	September 30 1966	1965
CURRENT LIABILITIES		
Trade accounts payable	$ 760,803	$ 322,323
Deposits on franchise contracts	323,961	121,789
Accrued taxes and interest	26,546	46,435
Accrued compensation and related items	98,081	46,851
Federal and state income taxes	928,051	602,157
National Cooperative Advertising Program	121,297	62,858
Portion of long-term liabilities due within one year	354,000	204,000
TOTAL CURRENT LIABILITIES	$2,612,739	$1,406,413
LONG-TERM LIABILITIES		
3% note payable to Col. Harland Sanders, due in annual installments on January 15 — Note C	$1,050,000	$1,250,000
Noninterest bearing note due in quarterly installments of $1,000 each	4,000	8,000
5% note payable to Jack C. Massey, due in annual installments of $100,000 beginning January 1, 1967 — Note A	400,000	—0—
	$1,454,000	$1,258,000
Less amount due within one year included with current liabilities	354,000	204,000
	$1,100,000	$1,054,000
CAPITAL STOCK AND SURPLUS		
Common Stock, no par value — Note F:		
Authorized September 30, 1966, 2,000,000 shares; September 30, 1965, 600,000 shares		
Issued September 30, 1966, 1,035,141 shares (including 27,400 shares in treasury); September 30, 1965, 510,000 shares	$1,035,141	$ 510,000
Capital surplus	194,470	148,863
Earned surplus	2,428,531	995,633
	$3,658,142	$1,654,496
Less cost of 27,400 shares of Common Stock in treasury	184,500	—0—
	$3,473,642	$1,654,496
COMMITMENTS AND CONTINGENT LIABILITIES — Note D		
	$7,186,381	$4,114,909

Statement of Consolidated Surplus

Kentucky Fried Chicken® Corporation and Consolidated Subsidiaries Years ended September 30, 1966 and 1965

	Year ended September 30 1966	1965
CAPITAL SURPLUS		
Balance at beginning of year	$ 148,863	$ —0—
Excess of sales price over cost of treasury stock sold	22,880	148,863
Excess of option price of stock sold to franchisees over stated value, less cost of registration of $22,215	171,590	
	$ 343,333	$ 148,863
Deduct amount tranferred to capital stock in connection with 2-for-1 stock split — See Note F	148,863	—0—
BALANCE AT END OF YEAR	$ 194,470	$ 148,863
EARNED SURPLUS		
Balance at beginning of year	$ 995,633	$ 205,283
Net profit for the year	1,794,035	790,350
	$2,789,668	$ 995,633
Deduct amount transferred to capital stock in connection with 2-for-1 stock split — See Note F	361,137	
BALANCE AT END OF YEAR	$2,428,531	$ 995,633

See notes to financial statements.



Across the country and around the world with Kentucky Fried Chicken®

Financial Operations

Statement of Consolidated Operations

	Year ended September 30 1966	1965
Net sales	$12,556,845	$7,118,523
Cost of goods sold	9,415,508	5,321,341
	$ 3,141,337	$1,797,182
Monthly franchise fees	2,258,645	1,147,330
Initial franchise fees	229,000	202,000
Net income of unconsolidated subsidiary	42,941	
	$ 5,671,923	$3,146,512
Selling and administrative and general expenses	2,056,476	1,577,385
	$ 3,615,447	$1,569,127
Other income	78,892	26,902
	$ 3,694,339	$1,596,029
Other deductions	118,407	53,293
PROFIT BEFORE INCOME TAXES	$ 3,575,932	$1,542,736
Provision for taxes on income:		
Federal	$ 1,623,044	$ 713,818
State	158,853	38,568
	$ 1,781,897	$ 752,386
NET PROFIT	$ 1,794,035	$ 790,350
Net profit per share, based upon 996,743 shares (the weighted average number of shares outstanding) for the year ended September 30, 1966, and 994,600 shares for the year ended September 30, 1965	$ 1.80	$ .79

See notes to financial statements.

Notes To Financial Statement

Note A — Principles of Consolidation

The consolidated financial statements include the accounts of Kentucky Fried Chicken Corporation and two wholly-owned subsidiaries, Colonel's Foods, Inc., and Kentucky Colonel Camera Club, Inc. All significant intercompany accounts and transactions have been eliminated.

The Corporation's equity in the net assets of its consolidated subsidiaries exceeded the carrying amount of investments in such subsidiaries by $67,791 at September 30, 1966, which amount, upon consolidation, has been included in consolidated earned surplus.

On January 1, 1966, the Corporation acquired all the outstanding stock of Commercial Investment Company whose principal shareholder, Jack C. Massey, is also a principal shareholder of Kentucky Fried Chicken Corporation.

The accounts of Commercial Investment Company are not consolidated with the parent for the reason that the operations of the finance subsidiary are dissimilar from the operations of the parent.

The amount at which the Corporation's investment in and advances to its unconsolidated subsidiary is stated is represented by the following:

Investment:	
Equity in net assets at date of acquisition	$274,170
Income retained since date of acquisition	42,941
Amount by which purchase price exceeded net assets at date of acquisition less amortization of $56,457	169,373
	$486,484
Advances:	
Balance of advances at September 30, 1966	315,156
TOTAL	$801,640

Note B — Property and equipment includes the following:

	September 30 1966	1965
Building and improvements — retail outlets	$ 84,224	$ 26,435
Automobiles and trucks	33,346	31,790
Office furniture and equipment	81,891	53,656
Equipment	338,206	174,354
Leasehold improvements, including retail outlets	184,134	76,641
	$721,801	$362,876
Less allowances for depreciation and amortization	116,584	62,214
	$605,217	$300,662
Land	98,931	—0—
TOTAL PROPERTY AND EQUIPMENT	$704,148	$300,662

Note C — Long-Term Liabilities

The note payable to Col. Harland Sanders was issued in connection with the acquisition of the Corporation's principal business, and matures as follows:

1967	$250,000
1968	300,000
1969	300,000
1970	200,000

Certain shareholders had pledged 423,000 and 900,000 shares (after giving effect to the 2-for-1 stock split) of the Corporation's Common Stock as collateral security for the note at September 30, 1966, and September 30, 1965, respectively. The note may be prepaid without penalty.

Note D — Commitments and Contingent Liabilities

The Corporation is contingently liable on equipment contracts with franchisees sold to Commercial Investment Company ($62,175 at September 30, 1966, and $100,000 at September 30, 1965) and an unaffiliated finance company ($368 at September 30, 1966, and $23,000 at September 30, 1965).

At September 30, 1966, the Corporation and its subsidiaries were lessees under fifteen leases, having terms expiring from 1967 to 1985. The rentals under these leases amount to a minimum annual rental of approximately $89,480 exclusive of real estate taxes, maintenance and insurance payments required by some of the leases. One of the leases having a net annual rental of $20,000, expiring in 1985, is with Commercial Investment Company.

The aforementioned minimum annual rent by five year periods is as follows:

	September 30 1966
1967-1971	$89,480
1971-1976	74,340
1976-1981	44,940
1981-1985	20,000

The Corporation has employed Col. Harland Sanders for his lifetime at an annual salary of $40,000.

The Federal income tax returns filed by the Corporation for the period ended September 30, 1964, and by the predecessor corporation for the period from July 1, 1963, to March 6, 1964, have been examined by the Internal Revenue Service. The examinations have resulted in proposals to assess additional taxes of approximately $120,000 (of which $24,000 is applicable to the predecessor corporation) brought about by the disallowance of certain expenses considered by the Corporation to be ordinary and necessary business expenses. Included in the expenses which the Internal Revenue Service proposes to disallow is approximately $107,000 amortization of franchise costs. The Corporation has deducted approximately $185,000 as amortization of franchise costs for the year ended September 30, 1965, and an additional $185,000

for the year ended September 30, 1966. If the position of the Internal Revenue Service in respect of the period ended September 30, 1964, is sustained, and if the Service takes the same position concerning disallowance of amortization of franchise costs for subsequent periods, the total additional Federal income tax liability at September 30, 1966, including the proposed assessment referred to above, would amount to approximately $298,000.

The Corporation believes that it will be successful in contesting the proposed assessment, and it has made no provision in the financial statements for this proposed assessment, nor for any liability that might result therefrom in a subsequent period.

Note E — Profit-Sharing Plan

The Corporation has a contributory profit-sharing plan, adopted by the predecessor corporation and continued by the Corporation, which provides retirement benefits for eligible employees who elect to participate. The Corporation's contribution may not exceed 10% of compensation (excluding bonuses) of participating employees. The amounts charged against income for the years ended September 30, 1966, and 1965 were $25,489, and $19,139, respectively.

Note F — Capitalization

On February 11, 1966, the Corporation increased its authorized capital to 2,000,000 shares of Common Stock, no par value, and effected a 2-for-1 stock split. In connection with the stock split $148,863 was transferred from capital surplus to capital stock and $361,137 was transferred from earned surplus to capital stock.

The Corporation has granted options to franchisees to purchase 98,365 shares of the Corporation's Common Stock at a price of $13.80 a share. The options are not transferable, may be exercised at any time after June 24, 1966, and expire March 31, 1969. Options have been exercised as follows:

Date	Number of Shares	Approximate Market Value at Date Exercised
August 4, 1966	6,386	$191,580
August 19, 1966	1,442	50,650
August 29, 1966	2,781	86,211
September 8, 1966	1,236	36,462
September 12, 1966	1,957	58,955
September 15, 1966	1,030	31,801
September 26, 1966	309	8,922
	15,141	$464,581

Accountants' Report

Board of Directors
Kentucky Fried Chicken Corporation
Nashville, Tennessee

We have examined the consolidated balance sheet of Kentucky Fried Chicken Corporation and its consolidated subsidiaries as of September 30, 1966, and the related statements of consolidated operations and consolidated surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made an examination of the consolidated financial statements for the year ended September 30, 1965.

In our opinion, subject to the outcome of the tax examination by the Internal Revenue Service as explained in Note D of notes to financial statements, the accompanying balance sheet and statements of operations and surplus present fairly the consolidated financial position of Kentucky Fried Chicken Corporation and consolidated subsidiaries at September 30, 1966, and the consolidated results of their operations for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ernst & Ernst

Nashville, Tennessee
November 5, 1966

A Typical Franchise Outlet
One of the 1,200 around the world

A typical opening day crowd.
This scene is duplicated many times every year throughout the country.

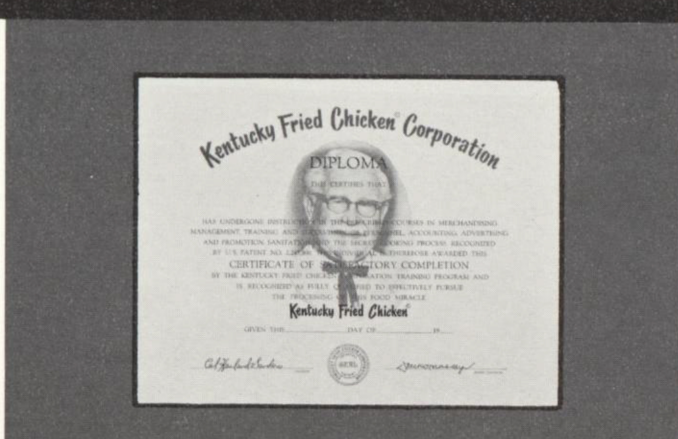
Friendliness and fast service keep bringing customers back to the lobbies of our take-out stores.

Cleanliness and good housekeeping prevail in the stainless steel Kentucky Fried Chicken kitchens.

KFC International Headquarters Operations

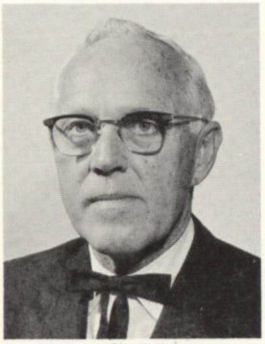
New foods and cooking techniques are carefully tested in KFC headquarters experimental kitchens.

Standardized building design, new signage applications, and new food equipment are all products of the KFC engineering department.



Franchisees and managers earn this diploma in intensive training programs at the KFC university.

Officers And Administrative Staff

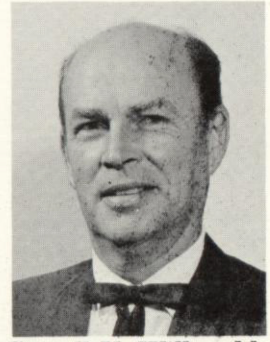


Jack C. Massey
Board Chairman

John Y. Brown, Jr.
President

Donald R. Hines
Vice President

Leon W. Harman
Vice President

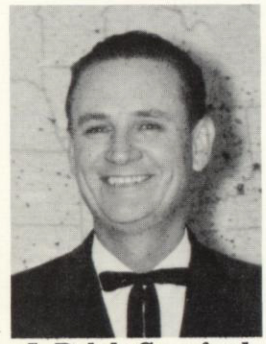


Carroll V. Willoughby
Assistant to the Board Chairman

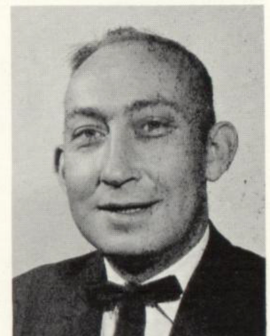
Charles G. Hitner
Treasurer

J. Clarence Evans
General Counsel Director

Maurine F. McGuire
Secretary



J. Ralph Crawford
Director of Field Services

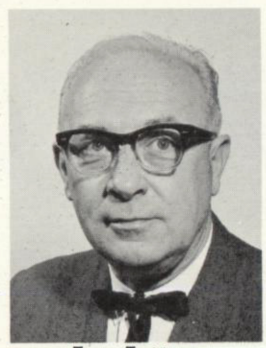


George Gray
Director of Purchasing

William L. Sheets
Legal Department

Margaret Howerton
Credit Manager

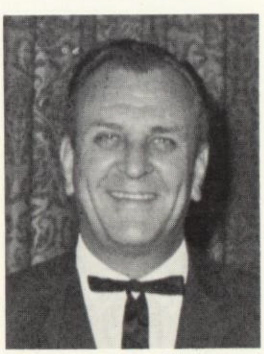
Omega C. Sattler
Assistant Secretary



Joe Jetton
Publications Editor and Equipment Sales Manager

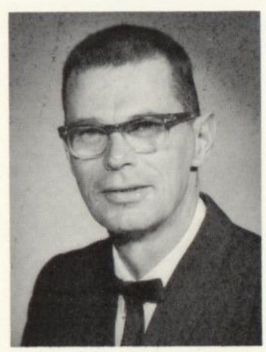
William E. Ellis
Director of Advertising

Arthur E. Pelster
Chief Engineer

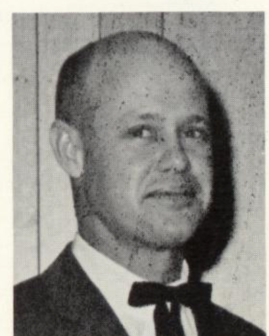


Kenneth J. Coomer
National Sales Director

Jerry N. Haynie
Training School Director



John F. Thuermer
Food Technologist



Louis Karibo
Training School Instructor

Board Of Directors

Jack C. Massey, Chairman	Harland M. Adams
John Y. Brown, Jr.	Philip Clauss
Donald R. Hines	Ervin E. Hanks
Leon W. Harman	James J. Matthews
Maurine F. McGuire	J. Clarence Evans
Charles G. Hitner	James A. Collins

Transfer Agents

First National City Bank, New York, New York
The Third National Bank in Nashville, Nashville, Tennessee

Registrars

Bankers Trust Company, New York, New York
First American National Bank, Nashville, Tennessee

MAILING ADDRESS KENTUCKY FRIED CHICKEN CORP. P.O. BOX 9010 NASHVILLE, TENN. 37204